

# City of Detroit

## CITY COUNCIL

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ANNE MARIE LANGAN  
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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director 

DATE: December 9, 2008

RE: Resolution Approving an Obsolete Property Rehabilitation  
Exemption for 3961-65 Woodward Project (**Recommend  
Approval**) *Line Item 68 on Today's Formal Session*

Resolution Approving a Commercial Rehabilitation Exemption  
Certificate for 3939 & 3959 Woodward & 25 & 35 W. Alexandrine  
Street Project (**Recommend Approval**) *Line Item 69 on Today's  
Formal Session*

The above referenced resolutions were voted out of the Planning and Economic Development Standing Committee last Wednesday for today's formal. At the time, I did not have the financials from the developers to determine the need for a 12-year obsolete property tax abatement and 10-year commercial rehab property tax abatement. I received numbers yesterday afternoon, and I report the following.

### **Project Description**

The entire Woodward Garden Block Development project is exciting, but complicated. In a nutshell, the total \$51 million project over four phases entails the construction of a 302 space parking garage, the demolition of three commercial buildings, the rehabilitation of a two-story historic building, the construction of a commercial building, the rehabilitation of a historic theater, and the construction of a mixed-use building.

The historic two-story Blue Moon building, 3961-65 Woodward, will be rehabilitated for commercial use with a restaurant on the first floor and office space on the second floor. It is estimated new tenants will bring 28 jobs to the neighborhood. The Assessors' Office declared this property as functionally obsolete. The obsolete property tax abatement applies to this portion of the development project.

Besides the parking component, the remainder of the Woodward Garden Block Development project would also add first floor retail and office space on the upper floors. It is estimated new tenants will add 54 jobs to the area. The commercial rehabilitation property tax abatement applies to the 3939 & 3959 Woodward & 25 & 35 W. Alexandrine portion of the development project.

### **Project Financing and Cash Flows**

Attachments I & II represent sources and uses statements for the first two phases of the project, amounting to \$18 million in project costs.

Of this amount, developer equity is \$828,000, or about a half of a percent. As a result, developer equity contribution is minimal, and therefore, poor. Developer contribution of 10% or more shows more commitment to the project. The developer, however, could receive historic tax credits on the redevelopment of the historic Blue Moon property, which could increase the equity contribution to a more acceptable percentage.

However, the developer does anticipate receiving a \$1.93 million equity contribution from a New Market Tax Credit investment fund. This does strengthen investor commitment to the project. Of course, the NMTC investor expects a return on its investment.

A Section 108 Loan will fund a little over \$13 million and a New Market Tax Credits loan of \$2.1 million will contribute to the remaining project costs under the first two phases. (Your Honorable Body approved a \$19 million Section 108 Loan for this entire project.)

Since the project is highly leveraged with debt, the cash flows are extremely important. Based on the cash flow statements, which are located in my office, the project would experience negative cash flows without the obsolete property tax and commercial rehabilitation property tax abatements. With the abatements, the project becomes economically feasible.

### **Recommendation**

Based on the above analysis, I recommend that your Honorable Body approve a 12-year obsolete property tax abatement and a 10-year commercial rehabilitation property tax abatement for the Woodward Garden Block Development project.

### **Attachments**

cc: Council Divisions  
Auditor General's Office  
Douglass Diggs, Planning and Development Department Director  
Clinton Griffin, PDD-Development Specialist

George Stewart, Developer  
Joseph Harris, Chief Financial Officer  
Pamela Scales, Budget Director  
Arese Robinson, Mayor's Office

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# Attachment I

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### Woodward Garden Block Development Project - South Parking Structure

#### Sources and Uses

8-Dec-08

Sources	Construction	Permanent
<b>Financing</b>		
Single Business Tax Credit (Investor TBD) <sup>1</sup>	\$ -	\$ -
Construction Loan	\$ -	\$ -
<b>NMTC</b>		
Developer Loan - 4%	\$ -	\$ -
Section 108 Loan - 5.25% <sup>2</sup>	\$ 7,050,000	\$ 7,050,000
NMTC Equity <sup>3</sup>	\$ 1,926,000	\$ 1,926,000
<b>Total</b>	<b>\$ 8,976,000</b>	<b>\$ 8,976,000</b>
Surplus/(Deficit)	\$ -	\$ -
<b>Uses</b>		
<b>Acquisition</b>		
Acquisition	\$ 1,372,625	\$ 1,372,625
<b>Hard Costs</b>		
Construction - Parking Structure (300 spaces @ \$16,700/space)	\$ 5,010,000	\$ 5,010,000
Demolition	\$ 100,000	\$ 100,000
Construction Contingency	\$ 333,000	\$ 333,000
Site Improvements	\$ 20,000	\$ 20,000
Permits and Fees	\$ 50,000	\$ 50,000
<b>Soft Costs</b>		
Construction Taxes	\$ 75,000	\$ 75,000
Construction Period Insurance	\$ 25,000	\$ 25,000
HUD Permanent Fee	\$ -	\$ -
Construction Period Interest	\$ 370,125	\$ 370,125
Environmental Phase I and II	\$ 10,000	\$ 10,000
Title Recording and Insurance	\$ 4,000	\$ 4,000
Conceptual and Schematic Designs	\$ 10,000	\$ 10,000
Professional Fees (A/E & Reimbursed)	\$ 436,475	\$ 436,475
Testing	\$ 50,000	\$ 50,000
Appraisal	\$ 5,000	\$ 5,000
Survey and Geotech	\$ 16,800	\$ 16,800
City and State Brownfield Fees	\$ -	\$ -
Economic Consultant	\$ 159,760	\$ 159,760
Accounting (Developer)	\$ 10,000	\$ 10,000
Accounting (NMTC - structuring & financial modeling fees)	\$ 19,000	\$ 19,000
Legal (Developer)	\$ 100,000	\$ 100,000
Legal (NMTC - CDE)	\$ 50,000	\$ 50,000
Legal (NMTC - Investor)	\$ 50,000	\$ 50,000
Project Manager	\$ 93,600	\$ 93,600
Developer Fee	\$ -	\$ -
Soft Cost Contingency - 10%	\$ 157,695	\$ 157,695
Const. Draw Servicing - \$600 for 10 months (NMTC)	\$ 6,000	\$ 6,000
Const. & Perm. Loan Servicing Setup Fee	\$ 14,000	\$ 14,000
Permanent Loan Payment Processing	\$ 1,000	\$ 1,000
Asset Management and Compliance Fee	\$ 23,000	\$ 23,000
Loan Loss Reserve (NMTC) - 2.25%	\$ 201,960	\$ 201,960
Working Capital (NMTC) - 2.25%	\$ 201,960	\$ 201,960
Misc.	\$ -	\$ -
<b>Total</b>	<b>\$ 8,976,000</b>	<b>\$ 8,976,000</b>
Estimated NMTC Allocation:	\$ 8,976,000	

<sup>1</sup> The costs attributed to this credit must be further analyzed. Based upon portion of construction costs.

<sup>2</sup> Loan to the Investment Fund.

<sup>3</sup> Equity contribution to the Investment Fund.

# Attachment II

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## Woodward Garden Block Development - Blue Moon and New Commercial Project - Scenario I

Sources and Uses

8-Dec-08

Sources	Zakoors	Blue Moon 5,580 Sq. Ft.	Commercial 23,772 Sq. Ft.	Total Construction	Total Permanent
Developer Equity	\$ 65,000	\$ 531,394	\$ 231,888	\$ 828,282	\$ 828,282
<b>NMTC<sup>1</sup></b>					
Section 108 Loan (4.5%) <sup>2</sup>	\$ 1,209,738	\$ 755,287	\$ 4,231,975	\$ 6,197,000	\$ 6,197,000
NMTC Loan <sup>3</sup>	\$ 349,333	\$ 379,566	\$ 1,358,391	\$ 2,087,290	\$ 2,087,290
<b>Total</b>	<b>\$ 1,624,071</b>	<b>\$ 1,666,247</b>	<b>\$ 5,822,254</b>	<b>\$ 9,112,572</b>	<b>\$ 9,112,572</b>
Surplus/Shortfall	\$ (0)	\$ 0	\$ (0)	\$ (0)	\$ (0)
<b>Uses</b>					
<b>Acquisition of Property</b>	\$ 1,495,000	\$ 531,394	\$ 861,888	\$ 2,888,282	\$ 2,888,282
<b>Hard Costs</b>					
Construction - Commercial Space	\$ -	\$ 342,438	\$ 2,770,633	\$ 3,113,071	\$ 3,113,071
Contractor Fee	\$ -	\$ 17,122	\$ 138,532	\$ 155,654	\$ 155,654
Site Improvements	\$ -	\$ 15,000	\$ 15,000	\$ 30,000	\$ 30,000
Permits and Fees	\$ -	\$ 4,758	\$ 28,916	\$ 33,674	\$ 33,674
Tenant Improvements	\$ -	\$ 97,660	\$ 342,600	\$ 440,260	\$ 440,260
Construction Contingency	\$ -	\$ 87,716	\$ 119,646	\$ 207,362	\$ 207,362
Payment and Performance Bond and Cost Certificate	\$ -	\$ 16,500	\$ 16,500	\$ 33,000	\$ 33,000
Subtotal Hard Costs	\$ -	\$ 581,194	\$ 3,431,827	\$ 4,013,021	\$ 4,013,021
<b>Soft Costs</b>					
Phase I & II Environmental Assessment	\$ -	\$ -	\$ -	\$ -	\$ -
Architectural Cost and Plan Review	\$ -	\$ 1,500	\$ 1,500	\$ 3,000	\$ 3,000
ALTA Survey	\$ -	\$ -	\$ 3,500	\$ 3,500	\$ 3,500
Testing	\$ -	\$ 7,500	\$ 7,500	\$ 15,000	\$ 15,000
Title Recording and Insurance	\$ 3,000	\$ 3,000	\$ 5,000	\$ 11,000	\$ 11,000
Appraisal	\$ -	\$ 12,500	\$ 12,500	\$ 25,000	\$ 25,000
Construction Period Taxes	\$ 30,000	\$ 10,000	\$ 25,830	\$ 65,830	\$ 65,830
Construction Period Insurance	\$ 15,029	\$ 15,038	\$ 15,039	\$ 45,106	\$ 45,106
Construction Period Interest	\$ 54,438	\$ 33,988	\$ 190,439	\$ 278,865	\$ 278,865
HUD Permanent Fees	\$ -	\$ -	\$ -	\$ -	\$ -
Relocation of Tenants	\$ -	\$ -	\$ 80,000	\$ 80,000	\$ 80,000
Conceptual and Schematic Designs	\$ -	\$ -	\$ 10,000	\$ 10,000	\$ 10,000
Architecture and Engineering - 7.5%	\$ -	\$ 43,590	\$ 257,387	\$ 300,977	\$ 300,977
City and State Brownfield Fees	\$ -	\$ -	\$ 20,000	\$ 20,000	\$ 20,000
Economic Consultant	\$ 16,573	\$ 43,600	\$ 88,355	\$ 148,528	\$ 148,528
Accounting (Developer)	\$ -	\$ -	\$ 10,000	\$ 10,000	\$ 10,000
Accounting (NMTC - structuring & financial modeling fees)	\$ -	\$ 9,500	\$ 9,500	\$ 19,000	\$ 19,000
Legal (Developer)	\$ -	\$ 36,213	\$ 36,772	\$ 72,985	\$ 72,985
Legal (NMTC - CDE)	\$ -	\$ 25,000	\$ 25,000	\$ 50,000	\$ 50,000
Legal (NMTC - Investor)	\$ -	\$ 25,000	\$ 25,000	\$ 50,000	\$ 50,000
Security	\$ -	\$ 14,191	\$ 61,360	\$ 75,551	\$ 75,551
Project Manager	\$ -	\$ -	\$ 78,399	\$ 78,399	\$ 78,399
Marketing	\$ -	\$ -	\$ 20,000	\$ 20,000	\$ 20,000
Developer Fee	\$ -	\$ -	\$ -	\$ -	\$ -
Soft Cost Contingency - 10%	\$ -	\$ 28,062	\$ 98,308	\$ 126,370	\$ 126,370
Inspection 3rd Party Fee - \$700 for 12 months (NMTC - CDE)	\$ -	\$ 4,200	\$ 4,200	\$ 8,400	\$ 8,400
Construction Draw Servicing - \$700 for 12 months (NMTC - CDE)	\$ -	\$ 4,200	\$ 4,200	\$ 8,400	\$ 8,400
Const. & Perm. Loan Servicing Setup Fee	\$ -	\$ 7,000	\$ 7,000	\$ 14,000	\$ 14,000
Permanent Loan Payment Processing	\$ -	\$ 500	\$ 500	\$ 1,000	\$ 1,000
CDE 7 yr Asset Mgmt. / Compliance Fee 4%	\$ -	\$ 165,686	\$ 165,686	\$ 331,372	\$ 331,372
Asset Management & Compliance Fees	\$ 4,031	\$ 2,506	\$ 14,174	\$ 20,711	\$ 20,711
Reserve (NMTC) - 4%	\$ 6,000	\$ 60,886	\$ 251,389	\$ 318,275	\$ 318,275
Working Capital (NMTC) - 4%	\$ -	\$ -	\$ -	\$ -	\$ -
Misc.	\$ -	\$ -	\$ 1	\$ 1	\$ 1
Subtotal Soft Costs	\$ 129,071	\$ 553,659	\$ 1,528,539	\$ 2,211,269	\$ 2,211,269
<b>Total</b>	<b>\$ 1,624,071</b>	<b>\$ 1,666,247</b>	<b>\$ 5,822,254</b>	<b>\$ 9,112,572</b>	<b>\$ 9,112,572</b>
Total Project Cost	\$ 9,112,572				
Estimated NMTC Allocation: <sup>2</sup>	\$ 8,284,290				

### Notes:

<sup>1</sup> The costs attributed to this credit must be further analyzed.

<sup>2</sup> Loan to the Investment Fund.

<sup>3</sup> Equity loan contribution to the Investment Fund.

For Preliminary Planning Purposes Only

Zachary and Associates, Inc.

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